Mark Scheme (Results)

January 2024

Pearson Edexcel International Advanced Level
In Accounting (WAC12) Paper 01
Unit 2: Corporate and Management Accounting

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General Marking Guidance

- All candidates must receive the same treatment. Examiners must mark the first candidate in exactly the same way as they mark the last.
- Mark schemes should be applied positively. Candidates must be rewarded for what they have shown they can do rather than penalised for omissions.
- Examiners should mark according to the mark scheme not according to their perception of where the grade boundaries may lie.
- There is no ceiling on achievement. All marks on the mark scheme should be used appropriately.
- All the marks on the mark scheme are designed to be awarded. Examiners should always award full marks if deserved, i.e. if the answer matches the mark scheme. Examiners should also be prepared to award zero marks if the candidate's response is not worthy of credit according to the mark scheme.
- Where some judgement is required, mark schemes will provide the principles by which marks will be awarded and exemplification may be limited.
- When examiners are in doubt regarding the application of the mark scheme to a candidate's response, the team leader must be consulted.
- Crossed out work should be marked UNLESS the candidate has replaced it with an alternative response.

SECTION A

Q1

(i)AO1(1) AO2 (4)

AO1: One mark for correct formula stated.

AO2 : Four marks for correct for correct calculation of dividend paid per ordinary share.

Dividend paid per share = Total ordinary dividend(1)AO1
Issued ordinary shares

Final dividend = (£60 000 000 x 0.0175) = £1 050 000

= £1 050 000(1)AO2 + £150 000(1)AO2 = £0.02 (2 pence) per share(1o/f)AO2
60 000 000 (1)AO2

(5)

(ii)AO1 (4)

AO1: Four marks for correct formula, correct insertion of market price of share and dividend per share and for correct calculation of dividend yield.

Dividend yield = Dividend per share x100 (1)AO1
Market price of share

= £0.02p (1o/f)AO1 x 100 = 1.25% (1o/f)AO1
£1.60p (1)AO1

(4)

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(iii)AO1(1) AO2 (5)

AO1: One mark for correct formula stated.

AO2 : Five marks for correct calculation and insertion of net profit after tax, and correct calculation and insertion of preference dividend, and correct insertion of ordinary shares, and correct calculation of earnings per ordinary share.

Earnings per ordinary share = Net profit after tax – Irredeemable preference dividend(1)AO1
Issued ordinary shares

Net profit after tax = (£3 815 000 - £635 000) = £3 180 000 (1)AO2

Irredeemable preference dividend = (£12 000 000 x 0.045) = £5=40 000

Earnings per ordinary share =

£3 180 000 (1)AO2 – £540 000(1)AO2 = 4.4 pence per share(1o/f)AO2
60 000 000 (1o/f)AO2

(6)

(v)AO1 (2) AO2 (2)

AO1 : One mark for correct stating of formula and correct insertion of total ordinary dividend.

AO2 : Two marks for correct for correct insertion of net profit after tax less preference dividends and calculation of dividend cover.

Dividend cover = Net profit after tax – irredeemable preference dividend (1)AO1
Total ordinary dividend

= £3 180 000 - £540 000 (1o/f)AO2 = 2.2 times AO2
£1 200 000 (1o/f)AO1

(4)

(vi) AO1(1) AO2(9) AO3(2)

AO1: One mark for correct formula stated.

AO2: Nine marks for correct insertion of debenture, bank loan, ordinary shares, retained earnings, general reserve, foreign exchange reserve, total debt, total equity and calculation of gearing ratio.

AO3: Two marks for correct inclusion of redeemable preference shares and irredeemable preference shares.

Gearing ratio = $\frac{\text{Fixed Cost Capital (Debt)}}{\text{Capital employed (Debt + Equity)}}$ x 100 (1)AO1

Debt = £9 600 000 (1)AO3 + £20 000 000(1)AO2 + £2 400 000 (1)AO2 = £32 000 000

Equity = £42 000 000 (1)AO2 + £12 000 000(1)AO3 + £10 400 000 (1)AO2 + £2 000 000 (1)AO2 + £1 600 000 (1)AO2 = £68 000 000

$= \frac{\text{£32 000 000}}{\text{£100 000 000}}$ (1o/f)AO2 x 100 (1o/f)AO2 = 32% (1o/f)AO2

(12)

(vii)AO1(1) AO2(3) AO3(4)

AO1: One mark for correct formula stated.

AO2 : Three marks for correct insertion of net profit before interest and tax and capital employed and calculation of return on capital employed.

AO3 : Four marks for correct insertion of net profit after interest before tax, correct calculation of interest to add back on debenture, bank loan, and redeemable preference shares.

Return on Capital employed = $\frac{\text{Net profit before interest and tax}}{\text{Capital employed}}$ x 100 (1)AO1

Net profit after interest before tax = £3 815 000 (1)AO3

Interest on debenture = (£20 000 000 x 11%) = £2 200 000 (1)AO3

Interest on bank loan = (£2 400 000 x 14%) = £336 000 (1)AO3

Interest on redeemable preference shares = (8 mill x £1.20 x 4%) = £384 000 (1)AO3

Net profit before interest and tax = £ 6 735 000

$= \frac{\text{£6 735 000 (1o/f)AO2}}{\text{£100 000 000 (1o/f)AO2}}$ x 100 = 6.74% (1o/f)AO2

(8)

(b) (AO1)1 (AO2)1 (AO3)4 (AO4)6

Own figure rule applies throughout answer.
Answers may include:

Improved performance in 2023

Dividend per share has risen by 0.2 pence per share.
Possible reasons for this include: increased net profit after interest and tax / increased earnings per share / a redemption of ordinary shares was made.

Earnings per share have risen by 0.2 pence per share.
Possible reasons for this include: increased net profit after tax / a redemption of ordinary shares was made.

Price/earnings ratio has risen by 8.36 times.
Possible reasons for this include: the market has more confidence in the company, possibly because of an increase in net profit after tax / another company is trying to takeover Pomos plc and this has pushed up the share price.

Dividend cover has risen by 0.1 times.
Possible reasons for this include: the directors deciding to follow a safer dividend policy and pay out lower dividends relative to net profit after tax / increased net profit after tax

Gearing has reduced by 7% points which reduces risk.
Possible reasons for this include: an issue of ordinary shares was made or some loans were repaid.

Return on capital employed has risen by 0.94% points.
Possible reasons for this include: increased net profit after tax / a possible decrease in share capital or fixed cost capital.

Worsened performance in 2023

Dividend cover has risen by 0.1 times
Possible reasons for this include: a smaller percentage of net profit after tax is being paid out as dividends as a deliberate policy which shareholders will not like.

Dividend yield has fallen by 0.25% points.
Possible reasons for this include: reduced net profit after tax which has resulted in lower dividends being paid out / the market price of the share has risen.

Conclusion

It appears that the performance of Pomos plc was better in 2023 than 2022 as shown by many of the ratios. The more important ratios such as earnings per share and price/earnings show an improvement.

Level	Mark	Descriptor
	0	A completely incorrect response.
Level 1	1-3	Isolated elements of knowledge and understanding recall based. Weak or no relevant application to the scenario set. Generic assertions may be present.
Level 2	4 - 6	Elements of knowledge and understanding, which are applied to the scenario. Chains of reasoning are present, but may be incomplete or invalid. A generic or superficial assessment is present.
Level 3	7 - 9	Accurate and thorough understanding, supported throughout by relevant application to the scenario. Some analytical perspectives are present, with developed chains of reasoning, showing causes and/or effects. An attempt at an assessment is presented, using financial and non-financial information, in an appropriate format and communicates reasoned explanations
Level 4	10 - 12	Accurate and thorough knowledge and understanding, supported throughout by relevant and effective application to the scenario. A coherent and logical chain of reasoning, showing causes and effects. Assessment is balanced, wide ranging and well contextualised using financial and non-financial information and makes informed recommendations and decisions.

(12)

Q1	**Total marks**	**55**

Q2

(a)AO1 (11) AO2 (11)

AO1: Five marks for correct calculation of revenue from spaces sold for years 1 to 5, five marks for correct calculation of running costs for years 1 to 5, and one mark for correct insertion of net present value for year 0.

AO2: Five marks for correct calculation of spaces sold, and six marks for correct calculation of net present value for years 1 to 5 and total net present value.

				Occupancy	Number of	
Spaces Sold	Warehouses	Spaces	Weeks	Rate	spaces sold	
Year 1	5	80	52	0.5	10400	(1)AO2
Year 2	5	80	52	0.75	15600	(1)AO2
Year 3	5	80	52	0.8	16640	(1)AO2
Year 4	5	80	52	0.9	18720	(1)AO2
Year 5	5	80	52	0.95	19760	(1)AO2
		Price	Total			
Revenue		per Space	Revenue			
Year 1	10400	£35	£364,000	(1o/f)AO1		
Year 2	15600	£35	£546,000	(1o/f)AO1		
Year 3	16640	£37	£615,680	(1o/f)AO1		
Year 4	18720	£37	£692,640	(1o/f)AO1		
Year 5	19760	£40	£790,400	(1o/f)AO1		
Running costs	Spaces sold	Cost	Total			
Year 1	10400	£5	£52,000	(1o/f)AO1		
Year 2	15600	£6	£93,600	(1o/f)AO1		
Year 3	16640	£7	£116,480	(1o/f)AO1		
Year 4	18720	£8	£149,760	(1o/f)AO1		
Year 5	19760	£8	£158,080	(1o/f)AO1		
Net Present Value			Net	Discount	Discounted	
	Inflow	Outflow	Cash flow	Factor	Net CF	
Year 0		£500,000		10%	(£500,000)	(1)AO1
Year 1	£364,000	£52,000	£312,000	0.909	£283,608	(1o/f)AO2
Year 2	£546,000	£93,600	£452,400	0.826	£373,682	(1o/f)AO2
Year 3	£615,680	£116,480	£499,200	0.751	£374,899	(1o/f)AO2

Year 4	£692,640	£149,760	£542,880	0.683	£370,787	(1o/f)AO2
Year 5	£790,400	£158,080	£632,320	0.621	£392,671	(1o/f)AO2
				NPV	£1 295 647	(1o/f)AO2

(22)

(b)AO1 (3) AO2 (6) AO3(3)

AO1: Three marks for correct calculation of average annual profit.

AO2: Six marks for correct calculation of profit for years 1 to 5 and total profit.

AO3: Three marks for correct calculation of the accounting rate of return.

Average Rate of Return				
	Revenue	Costs	Profit	
Year 1	£364,000	£152,000	£212,000	(1o/f)AO2
Year 2	£546,000	£193,600	£352,400	(1o/f)AO2
Year 3	£615,680	£216,480	£399,200	(1o/f)AO2
Year 4	£692,640	£249,760	£442,880	(1o/f)AO2
Year 5	£790,400	£258,080	£532,320	(1o/f)AO2
		Total	£1,938,800	(1o/f)AO2

Average annual profit	=	£1,938,800 / 5	(1o/f)AO1 (1)AO1	= £387,760	(1o/f)AO1	
Initial investment	=	£500,000				
Accounting rate of return (ARR)	=	£387,760 / £500,000	X 100 (1)AO3	(1o/f)AO3=	77.55%	(1o/f)AO3

(12)

(c)AO2 (6) AO3(3)

AO2: Six marks for correct calculation of numerator for payback calculation.

AO3: Three marks for correct calculation of payback period in years and months.

Payback					
period	Annual		Cumulative		
	cash flow		Cash flow		
End of Year 1	£312,000		£312,000	(1o/f)AO2	
End of Year 2	£452 400		£764 400	(1o/f)AO2	
Payback achieved	£500,000	less	£312,000	= £188 000	
	(1)AO2		(1o/f)AO2	(1o/f)AO2	
Payback is	1 year and	£188 000	x 12	(1o/f)AO3	
		£452 400	(1o/f)AO2		
=	1 years	4.99 months			
	(1o/f)AO3	(1o/f)AO3			

(9)

(d) AO1 (1) AO2 (1) AO3 (4) AO4 (6)

Case for investing in the project

The average annual profit of the warehouses for HJK Storage plc for the first five years is £387 760

The accounting rate of return (average rate of return) is 77.55% for the first five years. This is a healthy return and higher than the cost of capital.

The project payback is less than two years.

The net present value of the project is positive after five years, at £1 295 647

Case against investing in the project

The investment has a fixed life of only five years, after which the government will take over the site. Are there any other sites in the locality that will be available for longer than five years?

Other points

The figures given are only predictions and they may not be accurate. This may result in actual figures for net present value, accounting rate of return and the payback period being different to those used in the calculations.

Have HJK Storage carried out any market research to verify the figures?

The storage industry is a growing sector as populations and their mobility are increasing. The demand for storage facilities appears to have an upward trend. Storage facilities will appreciate in value.

Conclusion

As a long-term investment, the project seems a worthwhile investment for HJK Storage.

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Level 4	10 - 12	Accurate and thorough knowledge and understanding, supported throughout by relevant and effective application to the scenario. A coherent and logical chain of reasoning, showing causes and effects. Assessment is balanced, wide ranging and well contextualised using financial and non-financial information and makes informed recommendations and decisions.

(12)

Q2	**Total marks**	**55**

SECTION B

Q3

(a)(i) AO3 (5)

AO3 : Five marks for entries inProvision for depreciation account.

Property, Plant and Equipment Provision for Depreciation Account

Date	Details	£000		Date	Details	£ 000	
Jun 14	Disposals	135	(1)AO3	Jan 1 2023	Balance b/d	3 765	(1)AO3
Aug 23	Disposals	715	(1)AO3	Dec 31	Statement of Comprehensive Income	191	(1o/f)AO3
Dec 31	Balance c/d	3 106	(1)AO3				
		3 956				3 956	
				Jan 1 2024	Balance b/d	3 106	

(5)

(ii) AO1(5) AO2(12) AO3(2)

AO1: Five marks for label of "Profit from operations", correct entry for loss and depreciation, correct calculation of operating cash flow before working capital changes, and correct entry of tax paid.

AO2: Twelve marks for correct calculation and entry of profit on sale of fixed asset, loss on sale of fixed asset, increase or decrease in inventories, trade receivables, other receivables, trade payables, other payables, cash generated from operations, interest paid on bank loan, debenture and overdraft, and net cash from operating activities.

AO3: Two marks for correct calculation and entry of figure for profit from operations and amortisation of intangibles.

Statement of Cash Flow for y/e 31 December 2023		
Cash Flows from operating activities	£	
Profit from operations (1)AO1 (-283 000 (1)AO1 + (75 000 + 350 000 + 6 000)	148000	(1)AO3
Add Depreciation	191000	(1o/f)AO1
Add amortisation of intangibles	712000	(1)AO3
Less Profit on Sale of Non-current Asset	(647000)	(1)AO2
Add Loss on Sale of Non-current Asset	25000	(1)AO2
Operating cash flow before working capital changes	429000	(1o/f)AO1
Less increase in Inventories	(184000)	(1)AO2
Add decrease in Trade receivables	10000	(1)AO2
Less increase in Other receivables	(9000)	(1)AO2
Add increase in Trade payables	49000	(1)AO2
Add increase in Other payables	15000	(1)AO2
Cash generated from operations	310000	(1o/f)AO2
Less Interest Paid – Bank loan	(75000)	(1o/f)AO2
- Debenture	(350000)	(1o/f)AO2
- Overdraft	(6000)	(1o/f)AO2
Less Tax Paid	(401000)	(1)AO1
Net Cash Used in Operating Activities	(522000)	(1o/f)AO2

(19)

(b)AO2(1) AO3(2) AO4(3)

Liquidity position good/handled liquidity well

Current Ratio at year end stands at 1.51: 1 which is good, improving on the year start figure of 1.01:1

Tangail Supplies plc have improved liquidity by taking out of a debenture for £5 million.

The tax bill of £401 000 has been paid, which reduces current liabilities.

Bank loan of £2 million has been settled/paid off which will reduce demands on funds to pay interest.

Trade receivables have decreased so credit control has been handled well.

Liquidity position poorly/handled badly

Tangail Supplies plc has gone from a healthy level of cash and cash equivalents of £141 000 at the start of year to an overdraft of £98 000 at the end of the year. This is a reduction in cash and cash equivalents of £239 000 in the year.

Bank loan has been settled which uses liquid funds.

Debenture for £5 000 000 has been taken out. This is a very large sum and involves large interest payments and increases the debt of the company.

Although the current ratio is good, most of the current assets are inventories. The acid ratio at year start was 0.09 :1 which is very poor. The end year figure of 0.09:1 is still very poor.

Conclusion

Liquidity position/handling of liquidity is poor.

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Level 2	3-4	Elements of knowledge and understanding, which are applied to the scenario. Some analysis is present, with developed chains of reasoning, showing causes and/or effects applied to the scenario, although these may be incomplete or invalid. An attempt at an evaluation is presented, using financial and perhaps non-financial information, with a decision.
Level 3	5-6	Accurate and thorough knowledge and understanding. Application to the scenario is relevant and effective. A coherent and logical chain of reasoning, showing causes and effects is present. Evaluation is balanced and wide ranging, using financial and perhaps non-financial information and an appropriate decision is made.

(6)

Q3	Total marks	30

Q4

(a)AO1(1) AO2(1)

AO1: One mark for basic sum to calculate number of tiles.

AO2: One mark for number of clay tiles produced.

Number of clay tiles produced in a week = 310 x 8 x 5 (1) AO1 = 12 400 tiles (1) AO2

(2)

(b)AO1(2)

AO1: Two marks for stating material price formula.

Material price variance = (Standard price – Actual price) (1) AO1 x Actual quantity (1) AO1

(2)

(c)(i)AO2(2)

AO2: Two marks for calculating the actual price of a kilo of clay.

Actual price of clay per kilo = $\frac{2708.16}{6\ 448}$ (1) AO2 = £0.42 per kilo (1) AO2

(2)

(ii)AO2(4) AO2(1)

AO2: Four marks for workings for calculating the standard price of a kilo of clay.

AO3: One mark for calculating the standard price of a kilo of clay.

Substituting into the formula

Material price variance

£128.96 Adverse (1) AO2 = (Standard price - £0.42) (1o/f) AO2 x 6 448 (1) AO2

$\frac{£128.96}{6\ 448}$ Adverse = (Standard price – £0.42)

£0.02 Adverse (1) AO2 = (Standard price – £0.42)

Therefore, Standard price = £0.40 per kilo of clay (1o/f) AO3

(5)

(d)AO1(2)

AO1: Two marks for stating material usage formula.

Material usage variance

= (Standard quantity – Actual quantity) (1) AO1 x Standard price (1) AO1

(2)

(e)(i)AO2(3) AO2(2)

AO2: Three marks for workings for calculating the total standard quantity of clay.

AO3: Two marks for calculating the total standard quantity of clay.

Substituting into the formula

Material usage variance

£99.20 Adverse (1)AO2 = (Standard quantity – 6 448) (1)AO2 x £0.40 (1o/f)AO2

$\frac{£99.20}{£0.40}$ Adverse = (Standard quantity – 6 448)

248 Adverse (1o/f)AO3 = (Standard quantity – 6 448)

Therefore, Standard quantity total = 6 200 kilos (1o/f) AO3

(5)

(ii)AO2(2)

AO2: Two marks for calculating the standard quantity of clay to produce one tile.

Standard quantity of clay to produce one tile = $\frac{6\,200}{12\,400}$(1o/f) AO2 = 0.5 kilo (1o/f) AO2

(2)

(f)(i)AO3(2)

AO3: One mark for reason and one mark for development of reason.

The price variance is adverse which means the clay was more expensive than budgeted. (1)AO3

This may mean the clay was good quality which should not result in an adverse usage variance. (1)AO3

(2)

(ii)AO3(2)
AO3: One mark for reason and one mark for development of reason.

Answers may include:

Both variances are adverse. This could be because the accountants setting the standard costs are not very accurate or efficient in their role (1)AO3 and have miscalculated both variances. (1)AO3

The standards in the company are not very high. (1)AO3 Accountants underestimate costs and production line workers are inefficient and have a high figure for material wastage. (1)AO3

(2)

(g)AO2(1) AO3(2) AO4(3)

<u>Case for ICT in standard costing</u>

Saves time and therefore money, compared to preparing standard costs and variance analysis by hand.

The need to have ledgers and books is eliminated, and this saves space as well.

Programmes eg spreadsheets could be used to complete the calculations for YegenniTiles plc and this could reduce errors.

Presentation could be clear and in a standard format.

<u>Case against ICT in standard costing</u>

YegenniTiles plc have experienced computer problems and the standard costing and variance analysis information has been lost. Computers may freeze, power cuts etc which may result in a loss of information and waste of staff time. Back-up copies should be kept in case these issues occur.

Financial cost of hardware, software, staff training, running costs, maintenance etc. Hardware has a relatively short life, software often needs updating, new staff will need to be trained, and often outside experts are needed for maintenance issues.

If staff are not trained or are unskilled, they can make errors, which may lead to generation of incorrect information for YegenniTiles plc. These errors will take time and money to correct.

Security risks if management of Yogini Tiles plc wish to keep the information confidential. Outside hackers could access sensitive information if security controls are weak. Internal staff could gain access to information they are not meant to view if security controls are lapsed.

Conclusion

Should conclude that ICT is very useful when working on standard costing and variance analysis.

Level	Mark	Descriptor
	0	A completely incorrect response.
Level 1	1-2	Isolated elements of knowledge and understanding which are recall based. Generic assertions may be present. Weak or no relevant application to the scenario set.
Level 2	3-4	Elements of knowledge and understanding, which are applied to the scenario. Some analysis is present, with developed chains of reasoning, showing causes and/or effects applied to the scenario, although these may be incomplete or invalid. An attempt at an evaluation is presented, using financial and perhaps non-financial information, with a decision.
Level 3	5-6	Accurate and thorough knowledge and understanding. Application to the scenario is relevant and effective. A coherent and logical chain of reasoning, showing causes and effects is present. Evaluation is balanced and wide ranging, using financial and perhaps non-financial information and an appropriate decision is made.

(6)

Q4	Total marks	30

Q5

(a)AO2 (3)

AO1: Three marks for correct calculation of total cash offered for shares.

Number of shares in StreatSmartt plc = $\frac{22\,600\,000}{0.50}$ (1)AO2 = 45 200 000 shares (1)AO2

Total cash offered = 45 200 000 x £1.08 = £48 816 000 (1o/f)AO2

(3)

(b)AO1 (1) AO2 (1)

AO1: One mark for correct setting out of calculation of offer to purchase Tania's shares.

AO2: One mark for correct calculation of value of offer to purchase Tania's shares.

Valuation of offer to Tania= 2 300 x £1.08 (1)AO1 = £2 484 (1)AO2

(2)

(c)AO2(8) AO3(3)

AO2: Eight marks for correct calculation of netbook value of company, adjustments for property, equipment, and trade receivables, the adjusted value of StreatSmartt plc, and calculation of goodwill.

AO3: Three marks for correct calculation of adjustment for plant.

Calculation of Goodwill		£	
Original Book value of StreatSmartt plc	Assets	64 500 000	both
	Liabilities	(23 700 000)	(1)AO2
	Book value	40 800 000	(1)AO2
Adjustments - Property		1 740 000	(1)AO2
- Plant**(W1)**		(152 000)	(1o/f)AO3
- Equipment		(137 000)	(1)AO2
- Trade receivables		(78 000)	(1)AO2
Adjusted value of StreatSmartt plc		42 173 00	(1o/f)AO2
Purchase Price		48 816 000	(1o/f)AO2
Goodwill		6 643 000	(1o/f)AO2

(11)

Working (W1)

Value of plant before write down = (608 000 x 100)(1)AO3 = £760 000 (1)AO3
80

Therefore, write-down = £760 000 - £608 000 = £152 000

(d)AO2(4) AO3(4)

AO1: Four marks for correct insertion of name of account being closed.

AO3: Four marks for correct insertion of Realisation account or Sundry shareholders account.

Dec 31	Realisation a/c	14 500 000		(1)AO3
	Property a/c		14 500 000	(1)AO1
Dec 31	Realisation a/c	410 000		(1)AO3
	Equipment a/c		410 000	(1)AO1
Dec 31	Ordinary Shares of £0.50 a/c	22 600 000		(1)AO1
	Sundry Shareholders a/c		22 600 000	(1)AO3
Dec 31	Share Premium a/c	13 560 000		(1)AO1
	Sundry Shareholders a/c		13 560 000	(1)AO3

(8)

(e)AO2(1) AO3(2) AO4(3)

Answers may include:

In favour of WhereHaus plc offer

The offer from WhereHaus plc was in cash. Shareholders are guaranteed the cash value of £1.08 per £0.50 share in StreatSmartt plc. This may represent a profit, depending upon how much the shareholders paid for the share.

Shareholders could invest this £1.08 per share in a bank and earn interest. Or they could invest in other shares which may rise in value.

The £1.08 offer per share from WhereHaus plc is higher than the £1.02 offer from ScruffStyle plc by £0.06 per share.

The total offer is £48 816 00 which is £2 712 000 higher than the offer from ScruffStyle which is worth £46 104 000

In favour of ScruffStyle plc offer

The shares have a market value of £1.02 which is £0.06 less than the cash offer from WhereHaus plc. However, the shares in ScruffStyle plc may rise in value to above £1.08 each. This would make the ScruffStyle plc offer the better offer.

Conclusion

The conclusion probably depends upon whether the shares in ScruffStyle were likely rise or fall.

Level	Mark	Descriptor
	0	A completely incorrect response.
Level 1	1-2	Isolated elements of knowledge and understanding which are recall based. Generic assertions may be present. Weak or no relevant application to the scenario set.
Level 2	3-4	Elements of knowledge and understanding, which are applied to the scenario. Some analysis is present, with developed chains of reasoning, showing causes and/or effects applied to the scenario, although these may be incomplete or invalid. An attempt at an evaluation is presented, using financial and perhaps non-financial information, with a decision.
Level 3	5-6	Accurate and thorough knowledge and understanding. Application to the scenario is relevant and effective. A coherent and logical chain of reasoning, showing causes and effects is present. Evaluation is balanced and wide ranging, using financial and perhaps non-financial information and an appropriate decision is made.

(6)

Q5	Total marks	30

Q6

(a)AO1(3) AO2(7)

AO1: One mark for both direct labour and direct materials, both the variable and fixed elements of semi-variable costs, and fixed overheads.

AO2: One mark for total costs, both annual production and annual sales, number of units in inventory at end of Year 1, calculating the value of one unit of inventory and total inventory using marginal costing and absorption costing.

Inventory valuation	**Marginal £**	**Absorption £**	
Direct labour	990 000	990 000	both
Direct materials	780 000	780 000	(1)AO1
Semi -variable costs - variable	270 000	270 000	both
Semi -variable costs - fixed		90 000	(1)AO1
Fixed costs		570 000	(1)AO1
Total costs	2 040 000	2 700 000	(1o/f)AO2

Annual production = 2 500 x 12 = 30 000 units

Annual sales = 2 450 x 12 = 29 400 units(1)AO2 both

Inventory at end of Year 1 = 30 000 - 29 400 = 600 units(1o/f)AO2

Value of one unit of inventory using marginal costing = $\frac{2\,040\,000}{30\,000}$ = £68(1o/f)AO2

Value of total inventory using marginal costing = £68 x 600 = £40 800 (1o/f)AO2

Value of one unit of inventory using absorption costing = $\frac{2\,700\,000}{30\,000}$ = £90 (1o/f)AO2

Value of total inventory using absorption costing = £90 x 600 = £54 000 (1o/f)AO2

(10)

(b)AO2(5) AO3(5)

AO2: one mark each for correct inclusion when calculating the profit of revenue, opening inventory, fixed and variable costs, closing inventory, and profit.

AO3: One mark for calculation of annual door sales, and four marks for calculating the value of inventory at the end of Year 2

Working 1

Year 2 sales of doors = 29 400 (o/f) x 1.04 = 30 576 units (1o/f)AO3

Working 2

Units in inventory at end of Year 2 = (600 + 30 000 - 30 576) (1o/f)AO3 = 24 units (1o/f)AO3

Value of one unit of inventory using absorption costing = £90 x $\frac{110}{100}$ = £99 (1o/f)AO3

Value of inventory at end of Year 2 = (24 x £99) (1o/f)AO3 = £2 376

Calculation of profit for Home Front plc for Year 2

	£	£	
Revenue (30 576 x £175)		5 350 800	(1o/f)AO2
Opening inventory	54 000		(1o/f)AO2
Fixed and variable costs (£2 700 000 x 1.10)	2 970 000		(1o/f)AO2
Less closing inventory	(2 376)		(1o/f)AO2
Cost of goods sold		(3 021 624)	
Profit		2 329 176	(1o/f)AO2

(10)

(c)AO1(2) AO3(2)
AO1: One mark for basic point made for each disadvantage with a maximum of two.
AO2: One mark for an extension of each disadvantage with a maximum of two.

Disadvantage of absorption costing

All costs are not allocated to the time period in which they are incurred. (1)AO1 It may be argued that profit for HomeFront plc for that time period is not accurate as external accounts are drawn up on the basis of a time period. (1)AO3

Does not follow the prudence concept.(1)AO1HomeFront plc's closing inventory may be overstated and therefore profit may also be overstated. (1)AO3

May be time consuming and complex to work out. (1)AO1 This is because when calculating the value of closing inventory, all costs must be included in the valuation.(1)AO3

(4)

(d)AO2(1) AO3(2) AO4(3)

Answers may include:

Advantages of marginal costing

Marginal costing helps decision making in the short term. For example, HomeFrontplc may be deciding whether to accept an offer price. Also, to decide whether to make or discontinue or buy a product or a profit centre. This would be useful for internal use.

Marginal costing sees costs allocated to a time period. Therefore, it may be argued that profit shown for HomeFront plc in that time period using marginal costing is more accurate.

Marginal costing follows the prudence concept as it shows lower figures for closing inventory.

Disadvantages of marginal costing

Not recommended by SSAP 9 and IAS 2. If it is used to prepare financial statements for HomeFrontplc, it is argued they would not give a true and fair view or be signed off by auditors.

Not all costs are allocated to the products. This would mean this method is not suitable for fixing prices or accepting possible orders etc in the long run.

Conclusion

Marginal costing is a useful tool for HomeFront plc as it helps decision-making.

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(6)

Q6	Total marks	30

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